

Message Text

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SUBJECT: ECONOMIC TRENDS IN BELGIUM AND THEIR IMPLICATIONS FOR THE
UNITED STATES--AN INTERIM REPORT BASED ON PRELIMINARY DATA

REF: (A) BRUSSELS A-223

(B) BRUSSELS 6919

(C) BRUSSELS 8256

(D) BRUSSELS A-262

1. INTRODUCTION: THIS CABLE IS A BRIEF AND PRELIMINARY
UP-DATE OF OUR LAST SEMI-ANNUAL "TRENDS REPORT" AND A
PRELIMINARY PROJECTION OF ECONOMIC TRENDS IN BELGIUM FOR
1975. THE EMBASSY'S NEXT REGULAR "TRENDS REPORT", WHICH
WEILL BE SUBMITTED ABOUT APRIL 1, 1975, WILL BE BASED ON FULL
DATA FOR 1974. THE PRESENT REPORT IS BASED ON STATISTICS
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WHICH, IN MOST CASES, COVER ONLY THE FIRST TEN MONTHS OF

THE YEAR AND ON TALKS WITH BELGIAN OFFICIALS.

2. THE ECONOMIC SLOWDOWN ARRIVES: DURING THE LAST QUARTER OF 1974, THE GROWTH RATE OF BELGIAN ECONOMY IS BELIEVED TO HAVE CONTINUED TO SLOW DOWN AND WHEN FINAL FIGURES FOR 1974 ARE AVAILABLE, THEY WILL PROBABLY SHOW A 3 TO 4 PERCENT REAL GROWTH IN GNP (1973: 6 PERCENT). CONSUMER DEMAND DECLINED DURING THE LAST MONTHS OF THE YEAR AS UNEMPLOYMENT ROSE AND A RECESSION MENTALITY GREW AMONG CONSUMERS. RETAIL SALES IN DECEMBER, FOR EXAMPLE, WERE AT ABOUT LAST YEAR'S FRANC LEVEL DESPITE DEFINITELY HIGHER PRICES.

DEMAND FOR CAPITAL GOODS, IN CONTRAST, CONTINUED TO RISE UNTIL THE LAST MONTH OF THE YEAR AS BUSINESSMEN REPORTEDLY BOUGHT IN ANTICIPATION OF EVEN HIGHER PRICES IN 1975. BUT, ONE WELL-PLACED SOURCE CLAIMS THAT DEMAND FOR CAPITAL GOODS DROPPED PRECIPITATELY IN THE LAST HALF OF DECEMBER.

RATES FOR BOTH PRIVATE INVESTMENT AND PRIVATE SAVINGS BEGAN TO SHOW MODEST DROPS IN THE LAST THREE MONTHS OF 1974 BUT BELGIM REMAINED A COMPARATIVELY HIGH SAVER/INVESTOR AMONG OECD COUNTRIES.

THE RESTRICTIVE MONETARY POLICIES INTRODUCED BY THE BELGIAN GOVERNMENT LAST SUMMER BEGAN TO HAVE A DECIDED IMPACT IN THE LAST HALF OF THE YEAR. THE EXPANSION OF THE MONEY SUPPLY FOR THE FIRST NINE MONTHS OF 1974 WAS 56 BILLION FRANCS COMPARED WITH 74 BILLION FOR THE SAME PERIOD IN 1973 AND FINAL ANNUAL FIGURES WILL FURTHER EMPHASIZE THIS TREND.

ALTHOUGH CREDIT REMAINED VERY TIGHT, PRODUCTION INDICES FOR ALL INDUSTRIES EXCEPT CONSUMER DURABLES (PARTICULARLY AUTOMOBILES) REMAINED STEADY THROUGH OCTOBER. EVEN CONSTRUCTION IN THE LAST HALF OF 1974 WAS UP SLIGHTLY FROM 1973. UNEMPLOYMENT, HOWEVER, ROSE EACH MONTH DURING THE LAST HALF OF 1974. BANKRUPTCIES, EXPECTED TO INCREASE SHARPLY DURING THE LAST QUARTER OF 1974, IN FACT ROSE ONLY VERY SLIGHTLY. PROBABLY THIS WAS A RESULT OF THE GOVERNMENT'S MAKING AN EXCEPTION TO ITS RESTRICTIVE CREDIT POLICIES FOR BUSINESSES EMPLOYING LESS THAN 50. MANY MARGINAL UNCLASSIFIED

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FIRMS WERE THUS PROBABLY ABLE TO CONTINUE INTO 1975 ON CREDIT. THEY REMAIN VULNERABLE TO A FURTHER BUSINESS SLOWDOWN, HOWEVER. BELGIAN EXPORTS CONTINUED TODO WELL IN BOTH WORLD AND EC MARKETS DURING 1974 DESPITE A CHORUS OF GLOOMY PROPHESES TAHT LOWER INFLATION RATES IN GERMANY AND THE NETHERLANDS (PLUS STAGNATION IN SUCH OTHER ECONOMIES AS THE U.S.) WOULD CAUSE A DECLINE IN THE

GROWTH RATE OF BELGIUM'S 1974 EXPORT EARNINGS AND, PERHAPS, EVEN A DEFICIT IN BALANCE OF PAYMENTS. IN FACT, END-OF-THE-YEAR FIGURES WILL PROBABLY SHOW A SURPLUS IN BELGIUM'S BALANCE OF PAYMENTS OF

ROUGHLY 25 BILLION FRANCES, AS COMPARED WITH AN AVERAGE OF ABOUT 40 BILLION DURING THE PAST FIVE "GOOD" YEARS. (NINE MONTH FIGURES FOR 1974 ALREADY SHOW 21 BILLION VERSUS A 32 BILLION FRANC SURPLUS FOR THE SAME PERIOD IN 1973).

3. INFLATION: COMPARING THE AVERAGE OF 1974 WITH THE AVERAGE OF 1973, THE FINAL CONSUMER PRICE INDEX FOR BELGIUM, WHEN AVAILABLE, WILL PROBABLY SHOW A RISE OF ABOUT 13 PERCENT, I.E. , SLIGHTLY ABOVE THE AVERAGE FOR EEC COUNTRIES. DURING THE LAST PART OF THE YEAR, HOWEVER, THE RATE APPROACHED 16.5 PERCENT. (THE GNP DEFLATOR FOR ALL OF 1974 WILL BE ABOUT 10 PERCENT.) AT A MAJOR CABINET MEETING ON DECEMBER 14 TO DISCUSS THE TWIN PROBLEMS OF INFLATION AND RECESSION, A DECISION WAS MADE TO CONTINUE TO RELY MAINLY ON MONETARY POLICY AS AN ANTI-INFLATION WEAPON IN 1975 AND NOT TO FIX PRICES/WAGES OR TO FOLLOW SEVERE FISCAL POLICIES. IT WAS ALSO DECIDED THAT ONLY MINOR ANTI-RECESSION MEASURES WOULD BE TAKEN AT PRESENT, I.E. UNEMPLOYMENT COMPENSATION PROGRAMS WERE EXTENDED SLIGHTLY IN ANTICIPATION OF INCREASED NUMBERS OF UNEMPLOYED AND CREDIT WAS FURTHER LOOSENED SLIGHTLY FOR SMALL BUSINESS AND EXPORTERS. BUYING ON TIME BY CONSUMERS WAS ALSO MADE VERY SLIGHTLY EASIER AND MORTGAGE MONEY FOR INEXPENSIVE HOUSES WAS LOOSENED UP A LITTLE. NO OVERALL DECISION WAS MADE TO "RE-FLATE" THE ECONOMY DESPITE SOME EARLY REPORTS THAT BELGIM INTENDED TO DO SO.
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4. PREDICTIONS FOR 1975: ACCORDING TO A RELIABLE SOURCE IN THE MINISTRY OF ECONOMICS, "THINGS CANNOT BE EXPECTED TO BE GOOD IN 1975--BUT NOT SO BAD EITHER*" MORE SPECIFICALLY, THIS SOURCE AND OTHERS AGREE THAT BY INTERNAL BELGIAN GOVERNMENT PREDICTIONS THE BALANCE OF PAYMENTS WILL REMAIN POSITIVE IN 1975 AND THERE WILL BE SOME--PERHAPS 2 PERCENT-- REAL GROWTH IN GNP FOR THE ENTIRE YEAR (BUT WITH NEGATIVE GROWTH DURING THE FIRST QUARTER).

UNEMPLOYMENT IS EXPECTED TO RISE SOMEWHAT BUT WILL REMAIN UNDER 250,000. IT WAS ABOUT 218,000 OR 3.4 PERCENT IN MID-DECEMBER, 1974. WAGE RISES IN 1975 WILL PROBABLY BE LIMITED TO LITTLE MORE THAN THE MINIMUM REQUIRED BY INDEXATION (SAY, 16 PERCENT) AND THERE WILL BE NO SERIOUS STRIKES (BUT MANY THREATS OF STRIKES AND A FEW SHORT WILDCAT STRIKES).

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BELGIAN GOVERNMENT PREDICTIONS ARE THAT INFLATION WILL BE HELD DOWN TO ABOUT 10 PERCENT OVERALL IN 1975 WITH THE RATE DURING THE LAST HALF OF THE YEAR EXPECTED TO BE AS LOW AS 8 OR 9 PERCENT. DEMAND FOR CAPITAL GOODS WILL PROBABLY DECLINE IN THE FIRST MONTHS OF 1975 BUT WILL START GROWING AGAIN BY LATE SUMMER. CONSUMER DEMAND WILL REMAIN RELATIVELY STAGNANT UNTIL THE LAST QUARTER OF 1975 OR EARLY 1976. BELGIAN MINISTRY SOURCES EXPECT A CONTINUED

BALANCE OF PAYMENTS SURPLUS IN 1975 AT A REAL FIGURE SLIGHTLY UNDER THE 1974 LEVEL, I.E. ABOUT \$675 MILLION EVEN THOUGH THEY EXPECT THE PRICES OF BELGIAN IMPORTS TO RISE SLIGHTLY MORE THAN WILL PRICES FOR BELGIAN EXPORTS. THE VOLUME OF TRADE SHOULD REMAIN ABOUT THE SAME IN 1975 AS IN 1974, ACCORDING TO BELGIAN PREDICTIONS, AND CAPITAL MOVEMENTS SHOULD CONTINUE TO BE POSITIVE.

FINANCE MINISTRY OFFICIALS PRIVATELY ADMIT THAT THE 1975 NATIONAL BUDGET WILL INVOLVE A DEFICIT OF AT LEAST 20 BILLION FRANCES (\$55 MILLION).

COMMENT: THE EMBASSY HAS NO EVIDENCE TO CONTRADICT THESE PREDICTIONS BY BELGIAN SOURCES. THE OECD'S LATEST PREDICTIONS FOR THE BELGIAN ECONOMY ARE ABOUT THE SAME ALTHOUGH SLIGHTLY MORE OPTIMISTIC ON GNP GROWTH (3 PERCENT) AND SLIGHTLY MORE PESSIMISTIC ON THE BOP OUTLOOK (VERY SLIGHT NEGATIVE BALANCE).

5. IMPLICATIONS FOR AMERICAN EXPORTS: THE VALUE OF OVERALL BELGIAN IMPORTS FOR THE FIRST NINE MONTHS OF 1974 ROSE BY 38 PERCENT OVER THE VALUE FOR THE SAME PERIOD IN 1973 BUT MUCH OF THIS JUMP IS ATTRIBUTABLE TO HIGHER PRICES RATHER THAN AN INCREASED VOLUME OF IMPORTS. AMERICAN EXPORTS TO BELGIUM ROSE BY 55 PERCENT IN THOSE SAME NINE MONTHS AND THUS THE AMERICAN SHARE OF THIS MARKET APPEARS TO BE GROWING IN REAL TERMS. THE U.S. SHARE OF THE BELGIAN MARKET WILL PROBABLY BE OVER 6.5 PERCENT FOR 1974 (1973: 5.5 PERCENT). RECENT EMBASSY STUDIES (BRUSSELS A-266 AND BRUSSELS A-264) INDICATE THAT, AMONG OTHER PRODUCTS, AMERICAN EXPORTS OF INDUSTRIAL FOOD FREEZING EQUIPMENT, SPECIALIZED BREAD WRAPPING DEVICES, COMPLETE SYSTEMS

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FOR INSTITUTIONAL FEEDING, WORK CLOTHING, MEDIUM QUALITY HAND-TOOLS, ELECTRICAL MUSICAL INSTRUMENTS AND EQUIPMENT FOR GYMNASIUM SPORTS SHOW SPECIAL PROMISE FOR INCREASED SALES IN BELGIUM DURING 1975.

6. AMERICAN INVESTMENT IN BELGIUM: NO HARD DATA IS YET AVAILABLE TO US ON NEW AMERICAN INVESTMENT IN BELGIUM AND COMPLETE DATA IS NOT LIKELY TO BE AVAILABLE FOR ABOUT A YEAR. IT IS OUR IMPRESSION, HOWEVER, THAT LARGE AND WELL ESTABLISHED AMERICAN FIRMS (E.G. EXXON CHEMICAL) CONTINUE THEIR LONG ANNOUNCED PROGRAMS OF MAJOR INVESTMENT AND SMALLER AMERICAN FIRMS CONTINUE TO SET UP HERE. BELGIAN CREDIT RESTRICTIONS IMPOSED THIS YEAR ON ALL BUSINESS, CERTAIN CHANGES IN THE ADMINISTRATION OF BELGIAN INCOME TAXES FOR FOREIGNERS, THE LONG-

STANDING BELGIAN POLICY OF INDEXING WAGES, AND A
GENERAL ATMOSPHERE OF CAUTION IN BELGIAN BUSINESS
CIRCLES COULD CONTRIBUTE, HOWEVER, TO A SLOWDOWN IN
AMERICAN INTEREST IN INVESTING IN BELGIUM DURING 1975.
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